

PROCEDURE

**RECEIVING, INSPECTION, ACCEPTANCE TESTING AND
ACCEPTANCE OR REJECTION**

CAM 3.7.5

DATE: 12/15/99

A. PURPOSE:

Establishes policy and procedures for receiving, inspection, acceptance testing and accepting or rejecting delivered goods or services including information technology (IT) goods or services in conformance with the requirements of a contract.

B. DEFINITIONS: Definitions included here are for purposes of this policy and procedure only.

1. **Acceptance.** The legal act by which the buyer documents that the goods or services substantially conform to contract requirements; or the buyer accepts non-conforming goods; or the buyer fails to reject the goods after a reasonable amount of time.
2. **Acceptance Testing.** Procurement Division's Procurement Engineering Team (PET) partner closely with the customer agency and suppliers in order to establish test criteria (if not already specified in the contract) to ensure usable, quality goods. Testing of services usually consists of state program personnel indicating that services were satisfactorily performed. Testing of goods consists of, but is not limited to:
 - a. Destructive Tests
 - b. Non-destructive Tests
 - c. Qualification Testing
3. **Acknowledgment.** The act of recognition that goods have been delivered or services have been performed. Acknowledgment is not the same as acceptance as it does not indicate that goods or services conformed to contract requirements (see "**Acceptance**").
4. **Evaluation Report (ER).** The document used to record the results of inspections, tests, and investigations relative to goods purchased by the state and provides recommendation to accept or reject. Service contracts also require an evaluation of contractor performance (see the State Contracting Manual).
5. **Inspection.** Examining goods that have been delivered to the State in order to determine they conform to what was ordered on the contract. Inspection includes, but is not limited to:
 - a. Making sure that what was ordered conforms to contract description, Statement of Work, specifications and/or other contractual requirements.
 - b. Verifying the quantity ordered against the quantity shipped and delivered.
 - c. Inspecting for damage or breakage.
 - d. Checking for operability/functionality.
6. **Notification.** A written communication to the supplier that advises that goods or services have been accepted, or if rejected, states the reasons the goods or services failed to conform to contract requirements.

7. **Receiving.** The act of taking possession of goods in order to stage them for inspection or put them into inventory or the act of acknowledging completion of services by the State. A worker on the receiving dock who signs for goods, merely provides acknowledgment that they were delivered, not that they were “accepted” as defined herein.
8. **Rejection.** The act which determines that the goods or services fail to conform to the contract in some material respect. Rejection removes the buyer’s responsibility to pay for rejected goods or services. If the act of tender itself is non-conforming, for example, the supplier failed to send the goods on the carrier specified in the contract, or failed to send the exact quantity ordered, the buyer may reject or refuse delivery of the goods.
9. **Supplier Performance Report (SPR).** The document completed by receiving personnel or designated staff which is submitted to the Procurement Division Supplier Base Management Unit for the purpose of reporting a supplier’s contract performance in regards to contract delivery and product quality.
10. **Tender.** A written offer by the seller to contract for goods or services at a specified cost or rate. The Uniform Commercial Code (UCC) Article 2 requires the seller to put and hold conforming goods at the buyer’s disposition; and to notify the buyer that goods are available. If the contract provides for the supplier delivery free on board (F.O.B.) to buyer’s destination, tender includes the act of delivery of the goods. As applied to services, tender is the act of providing required services including any deliverables.

C. PROCEDURE

1. **General.** Each contracting agency shall determine that the goods or services are substantially in conformance with the requirements of the contract, including all the terms and conditions thereof. The entire process shall consist of:
 - a. *Receiving*, or acknowledgment of delivery.
 - b. *Inspection* of goods or evaluation of satisfactory performance of services.
 - c. *Acceptance testing* of either the first article delivered or random sampling of all or selected deliveries.
 - d. *Acceptance or Rejection* of the goods or services. Payment is not considered part of this process. (See CAM 3.7.9, Payments to Suppliers.)
2. **Receiving**
 - a. When goods are delivered to the shipping point (assumed for purposes of this procedure to be the buyer’s destination), receiving/designated staff shall determine that the:
 - i. Consignee on the shipper’s bill of lading/delivery receipt is correct.
 - ii. Unit count noted on the bill of lading/shipping receipt matches the units actually delivered.
 - iii. If damage is evident, determine if the supplier or the carrier caused it.
 - b. The following are the **basic elements** required in documenting receiving transactions:

- i. Full name and telephone number of receiving/designated staff, legibly printed, so the receiver may be contacted with questions.
- ii. Contract number.
- iii. Correct coding so that the receiving document provides the vehicle for all accounting-related coding to be communicated.
- iv. Documentation of what was actually delivered, verified to the purchase document, with clear notation and explanation of any discrepancies or partial shipments.
- v. Signature of receiving employee.
- vi. Legibility of all information.
- vii. Timeliness is the final element necessary to successful receiving transactions. Timely inspection of received goods must be taken into consideration and services rendered must be verified immediately after the service is completed to ensure prompt payment discounts are taken. If for any reason there is a delay, inform the supplier immediately. Additionally, the lack of adequate receiving documentation often results in the inability to make timely, accurate supplier payments (See CAM 3.7.9, Payments to Suppliers).

c. Specific Receiving Requirements for:

- i. *Goods*: General receiving practice for commercial goods begins with receiving/designated staff checking shipments to see that all containers shown on the bill of lading are delivered undamaged and then signing for the delivery of the items described on the bill of lading. Documentation is forwarded in a timely manner either to the departmental accounting office or designated inventory management unit. If the freight terms required that the consignee is to pay the shipping costs, the bill of lading/delivery receipt verifying shipping costs shall be forwarded as part of the receiving documentation.
- ii. *Set in Place or Desktop Orders*: Some purchases require the supplier to deliver materiel directly to an installation site (usually inside a building) and to assemble and/or to set them in place. Suppliers must be provided written instructions in the body of the contract specifying this requirement and indicating the need for advance notice to the requester, or other designated individual, of the delivery time and date. Upon acceptance, the receiver must complete and forward the receiving documentation in a timely manner.
- iii. *Partial Shipment*: A partial shipment may be documented by sending a photocopy of the contract with clear instructions indicating "Partial shipment received (date)", along with the appropriate stock received report or document. When the remainder or balance of the order is received, complete and forward the appropriate stock received report or document.
- iv. *Disputes with Carriers*: Where latent loss or damage is not discovered until after a shipment has been accepted, in good condition, and an inspection of the opened containers reveals evidence of loss or damage during transit, the delivering carrier shall be notified in a timely manner (oral notification shall be confirmed in writing). The carrier is given an opportunity to inspect the shipment in question.
- v. *Supplier Performance Report (SPR)*: Agencies must report supplier performance to the Procurement Division, Supplier Base Management Unit. Documentation of the supplier's delivery performance history (i.e., early, just-in-time or late delivery; overages, shortages or damaged shipments; compliance or non-compliance to quality specifications) is a critical element

in the overall procurement function. Agencies shall complete the SPR and forward via fax, mail or email to the Procurement Division Supplier Base Management Unit. For more information on the Supplier Base Management function within the Procurement Division, please see CAM 3.3.5, Supplier Development and Capability Assessment.

d. A typical "package" of **receiving documentation** shall include at a minimum:

- i. The invoice or packing slip.
- ii. The receiving copy of the contract.
- iii. A completed stock received report.
- iv. A completed Supplier Performance Report (SPR).

3. **Inspection.** If a supplier and the purchasing organization establish a partnering arrangement that calls for inspection by the supplier, the parties' inspection rights and obligations must be clearly spelled out in the contract. The supplier's inspector may, in effect, become an agent of the buyer for this purpose, but the buyer should consider carefully whether such an agency is appropriate considering supplier performance data, whether the item is a commercial off-the-shelf item and other contract risks.

a. **Timing:** Timing of inspection is an important factor. The UCC does not prescribe any set time, other than the general requirement that the buyer inspect within a reasonable time. The buyer must keep in mind that acceptance may be inferred from the passage of time. Frequently, goods are not inspected until they are about to be put to use, especially in the case of drop shipments that are delivered to various sites remote from the purchasing organization. Sometimes, perhaps due to limited resources, it may be the organization's policy not to inspect goods until they reach the internal customer. Whenever goods cannot or will not be inspected within a fairly short time after receipt, the contract should provide specifically for a delayed inspection, allowing the buyer what might otherwise be considered an unreasonable amount of time to decide whether to accept the goods. This may be subject to reevaluation or cause the price to be higher as a result of the supplier taking on additional risk and may impact warranty coverage. (See also CAM 3.7.8, Warranty Administration.)

b. **Inspecting a Shipment:** Once a delivery is acknowledged from the supplier or carrier at the shipping point, receiving/designated staff shall inspect the shipment to determine that the:

- i. Product description on the contract is correct.
- ii. Brand is correct.
- iii. Model is correct.
- iv. Instructions regarding special handling or packaging were followed.
- v. Product appears to be the same as ordered and accepted.
- vi. Unit of measurement count is correct (e.g., if the unit of measurement is one dozen, count 12 in the unit package).
- vii. Product or service conforms to specification(s) cited in the contract.
- viii. Delivery documentation (packing slip, certifications, etc.) is acceptable.
- ix. Packaging is correct. Packaging properly protects the product.
- x. The packaging integrity is preserved (no leaking, etc.).
- xi. Perishable items are in good condition and expiration dates have not been exceeded.

- c. **Acceptance Testing:** Acceptance testing criteria must be clearly stated and outlined in the contract. The testing or demonstration may occur over a specified time period. The following methods shall be used in assuring the highest quality of products or commodities received from the State's supplier base:
 - i. *Destructive Testing (DT)* shall be utilized at times when tests are necessary to find "non-conforming features" or defects in design or manufacturing. Demonstrative methods are required to prove operability. DT includes but is not limited to, cutting products to find out what is inside, or pulling apart ropes to test for tensile strength, igniting fusees to see how long they burn, firing ammunition to measure muzzle velocity, etc.
 - ii. *Nondestructive testing (NDT)* shall be utilized when the goods' future usefulness must not be affected. NDT allows inspection without interfering with a product's final use and achieves a balance between quality control and cost-effectiveness. NDT includes methods that detect internal or external defects, determine structure, composition, or material properties, or measure geometric characteristics. NDT shall be used in any phase of product design and manufacturing process, including materials selection, research and development, assembly, quality control and maintenance.
 - iii. *Qualification Testing (QT)* shall be conducted for products or commodities when establishing Acceptable Brands Lists (ABL) and Qualified Products Lists. These lists enable suppliers to submit price quotes for a specific brand or brands of goods. (See also CAM 3.3.4, Developing The Specification/Statement Of Work.)
 - d. **Evaluation Report (ER):** The ER must be used to document the results of any acceptance testing performed by the Procurement Division Procurement Engineering Team (PET) on goods purchased by the State of California. It is principally used for: a) receiving inspection of contract deliveries; b) evaluation of bid samples; c) product sample evaluations in support of Acceptable Brands Lists and Qualified Products Lists; and d) evaluation in response to agency complaints about delivered products. The ER shall also be used for installation inspections and supplier performance reviews. A procurement engineer in the PET unit prepares the ER. To receive a sample ER and complete instructions on how to fill out the report you may contact the appropriate engineer via our website at: <http://www.pd.dgs.ca.gov/supplier/specs.htm>. The home page provides customers with telephone numbers and e-mail addresses of the all PET staff.
 - e. **Specific Criteria:** When a contract requires specific criteria for acceptance testing, or if the contract requires a specific brand of product or commodity, contact the PET unit at <http://www.pd.dgs.ca.gov/supplier/specs.htm>. The home page provides customers with telephone numbers, e-mail addresses and area of expertise. An engineer with expertise in your specific product or commodity area will provide assistance in meeting the acceptance testing objectives. The PET may utilize the DT and NDT types of acceptance testing procedures as well as **Reliability and Functionality** tests which may include destructive testing to determine life cycle history or to measure the mean time between failures.
4. **Acceptance or Rejection.** After an inspection or acceptance test determines the goods are in conformance with the contract, documentation must be forwarded to your accounting unit in a timely manner to facilitate prompt payment to supplier. (Refer to CAM 3.7.9, Payment to Suppliers).

- a. Successful acceptance is achieved by:
 - i. Preparing an inspection or evaluation report indicating the goods conform to contract requirements.
 - ii. Preparing a stock received document.
 - iii. Transmittal of receiving document to accounts payable unit.
 - iv. Notification of supplier.
- b. Rejection of Non-Conforming Goods:
 - i. Under the "perfect tender rule" of UCC, one option available to the buyer is rejection of the goods if they or the tender of delivery "fail in any respect to conform to the contract". The buyer's other options are to accept the goods despite the non-conformity or to accept any commercial unit (e.g., lot, case, and pallet) and reject the rest. To illustrate, in the event of an over-shipment, a buyer could reject the entire shipment or accept the portion ordered and reject the excess. Many contracts make allowances for overages and shortages. Any agreement between the parties in this respect will be enforceable, but buyers should carefully consider their options when the contract does not provide such an allowance.
 - ii. Note, too, that the non-conformity may be in the tender of delivery, not just in the goods. If, for example, the contract specifies use of a particular carrier and the supplier uses a different carrier, the buyer may choose to reject the goods. In effect, the supplier's breach of the Contract terms permits the buyer to refuse the shipment. However, it may not be practical to reject otherwise conforming goods for such a technicality, but if the non-conformance causes an adverse impact to the State, the State can seek consideration. (See CAM 3.7.2, Contract Changes and CAM 3.7.11, Claims and Damages).
 - iii. As with acceptance, rejection also must be made within a reasonable time after delivery. Further, the buyer must notify the seller of all of the reasons for the rejection. This notification must include a description of the non-conformities. If the buyer's required description fails to include a particular defect, that defect cannot be used to justify rejection or as the basis for a breach of contract claim, nor can it be claimed at a later time.
 - iv. In general, a buyer in possession of rejected goods must hold and care for them, permitting sufficient time for the seller to reclaim them. In the case of a merchant buyer (in other words, in most commercial transactions), the buyer's duties with regard to rejected goods are somewhat more explicit. If the seller has no agent or place of business in the location where the buyer has rejected the goods, the buyer must comply with the seller's instructions. If no instructions are received, the buyer must make reasonable efforts to sell the goods on behalf of the seller if they are perishable or their value will decline rapidly. The buyer is entitled to reimbursement for reasonable expenses associated with holding and selling the goods as well as a commission on the sale. If no instructions are received and the goods are not perishable, the buyer may store the goods, or may reship them to the seller at seller's expense. Whenever the State elects to use the remedies above, the contract file shall be documented accordingly. The State may also claim other reasonable costs and damage resulting from breach of contract so careful record keeping is essential.

- v. Many suppliers require the buyer to obtain a return authorization before shipping goods back to the supplier. If this requirement is in the contract, the buyer should abide by it. But if the supplier refuses to authorize a return of goods that the buyer has the right to reject, the buyer may want to treat this as a failure on the part of the supplier to provide reasonable instructions and should consider all of the options available — storage, reshipment, or resale of the goods.
- vi. In the case of an installment contract, the buyer may reject any non-conforming installment when the value of the installment is substantially impaired and cannot be corrected. For example, in a contract for 10,000 reams of white copy paper to be delivered in lots of 100 reams each month, a delivery of pink paper one month will justify rejection of that installment because pink paper is of no use to the purchasing organization and cannot be color corrected to white paper. The supplier may, at the buyer's option, be permitted to make a replacement delivery of white paper.
- vii. A non-conforming installment that substantially impairs the value of the whole contract entitles the buyer to treat it as a breach of the contract. (See CAM 3.7.7, Contract Termination). The contract will, however, remain in effect if the buyer accepts a non-conforming installment without notifying the seller that the contract has been terminated for default or by demanding that future installments be delivered according to the contract. To illustrate, if, instead of copy paper, a contract calls for the delivery of a copy machine to be delivered in six installments of parts that will be assembled at the buyer's site, the delivery of one non-conforming installment will probably make the entire contract worthless because the copier cannot be properly assembled. The buyer may, in this case, terminate the contract for default assuming the supplier cannot correct the defect within the reasonable time allowed. The buyer will, of course, be obligated to pay for any goods accepted. (A price adjustment may be appropriate for non-conforming goods. See CAM 3.7.7 Contract Termination.)
- viii. If the goods or services are not in conformance, communicate the problem(s) and rejection in writing to the buyer, user and supplier. Clearly document the acceptance criteria (i.e., timeliness for removing rejected goods from state premises) for a specific problem and how the delivered product does not conform. Identification of the grounds for rejection must be very specific, as anything not stated may not be introduced later. Forward the documentation to the buyer, user and supplier.
- ix. Note on Rejection of Non-conforming Goods Procedure: If non-conforming goods are accepted, assess the decreased value and seek consideration by negotiation and issuance of a contract change (see CAM 3.5.6, Negotiating Transactions and CAM 3.7.2, Contract Changes).

D. RESPONSIBILITIES:

1. **Receiving.** Receiving/designated staff is responsible for:
 - a. Determining that the consignee is correct.
 - b. The piece count is correct.
 - c. Verifying that the shipment is undamaged.
 - d. In cases where a shipment has exceptions, (i.e., over, short, or damaged) the receiver or designated staff is responsible for identifying the exceptions on the bill of lading/delivery receipt, signing the notation **and** obtaining the carrier's signature.

- e. **Supplier Performance.** Procurement Division Supplier Base Management Unit is the States' agent in matters regarding supplier performance. For assistance please phone (916) 375-4551.
 - f. **Supplier Performance Report (SPR).** Completion of the SPR ultimately lies with the person who was originally responsible for committing the resources, and approving the procurement.
2. **Inspection.** The contract manager/designee who acknowledges delivery of material is ultimately responsible for inspecting or acquiring inspection services, preparing and signing the stock received report or receiving document.
3. **Acceptance Testing.** Procurement Division's Procurement Engineering Team unit is the States' agent in matters regarding acceptance testing of goods and may be contacted at (916) 375-4530 for assistance. The PET will prepare the Evaluation Report (ER).
4. **Acceptance.** Typically the responsibility for acceptance of goods or services ordered is either the requester or the person who approved the request. Where acceptance must be performed by someone other than the person taking delivery, the responsibility for the timely completion of the receiving process ultimately lies with the person who was originally responsible for committing the resources, and approving the procurement. In the event of a dispute of delivered goods, the person who approved the procurement is responsible for initiating a formal dispute notice to the supplier (CAM 3.7.6, Dispute Resolution).
5. **Rejection of Non-Conforming Goods.** It is the buyer's responsibility to contact the supplier, hold and take care of rejected goods long enough to allow the supplier to take possession of the goods and remove them from the site. If the supplier does not remove the goods within a reasonable period of time, the buyer may either ship them back or store them with reimbursement required from the supplier for any reasonably incurred costs (shipment, storage, etc.).
6. **Disputes with Carriers.** The Procurement Division's Transportation Management Unit is the State's agent in matters regarding lost, over, short or damaged shipment claims and may be contacted at (916) 573-2203 for assistance and filing of claims against shipping agents. (See also CAM 4.7 Transportation.)

E. APPENDICES:

- 1. None

F. AUTHORITY AND REFERENCES:

- 1. Statutory: Uniform Commercial Code/California Commercial Code:
 - Section 2503, Manner of Seller's Tender of Delivery
 - Section 2511, Tender of Payment by Buyer; Payment by check
 - Section 2512, Payment by Buyer Before Inspection
 - Section 2513, Buyer's Right to Inspection of Goods
 - Section 2601, Buyer's Rights on Improper Delivery
 - Section 2602, Manner and Effect of Rightful Rejection
 - Section 2603, Merchant Buyer's Duties as to Rightfully Rejected Goods
 - Section 2604, Buyer's Options as to Salvage of Rightfully Rejected Goods
 - Section 2605, Waiver of Buyer's Objections by Failure to Particularize

Section 2606, What Constitutes Acceptance of Goods
Section 2607, Effect of Acceptance, Notice of Breach; Burden of
Establishing Breach After Acceptance; Notice of Claim or
Litigation to Person Answerable Over
Section 2608, Revocation of Acceptance

- 2. Administrative: State Administrative Manual
Section 3510.4, Rejection of Substandard Commodities
- 3. Procedural: [CAM 3.3.4, Developing The Specification/Statement of Work](#)
[CAM 3.3.5, Supplier Development and Capability Assessment](#)
CAM 3.5.6, Negotiating Transactions
[CAM 3.7.2, Contract Changes](#)
CAM 3.7.7, Contract Termination
[CAM 3.7.8, Warranty Administration](#)
[CAM 3.7.9, Payments to Suppliers](#)
CAM 3.7.11, Claims and Damages

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